

*Grupo Melo, S.A.*



Apartado Postal 333  
Panamá 1, Panamá

Vía España 2313 - Río Abajo  
Teléfono: 221-0033  
Fax: 224-2311

February 19, 2003

Securities an Exchange Commission  
Division of Corporation Finance  
Office of international Corporate Finance  
Room 3099 (stop 3-9)  
450 Fifth Street, N. W.  
Washington, D.C. 20549



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SUPPL

03 FEB 26 AM 7:21

Re: Grupo Melo, S. A.  
File NO. 82-4893  
Periodic reporting under Rule 12g3-2 (b)

Ladies and Gentlemen:

Pursuant to Rule 12g32 (b) promulgated under the Securities Exchange Act of 1934, Grupo Melo, S. A. (the "company") hereby furnishes to the Securities and Exchange Commission the following information which was made public as described in Rule 12g3-2 (b) (1) (i):

1. Quarter Update Report for the nine months ended September 30, 2002.
2. Unaudited Consolidated Financial Statements of Grupo Melo and Subsidiaries for the nine months ended September 30, 2002.

Should you have any questions concerning the above, please do not hesitate to contact the undersigned at (507) 323-6978, 323-6983 or 221-0358

Sincerely yours,

Eduardo A. Jaspé Lescure  
Grupo Melo and Subsidiaries  
Credit and Finance Director

PROCESSED

MAR 10 2003

THOMSON  
FINANCIAL

Enclosures

c.c.: Ann Bailen Fisher  
(Sullivan & Cromwell)  
Lucia Dumeng  
(The Bank of New York)

2203/4

**REPUBLIC OF PANAMA  
NATIONAL SECURITIES COMMISSION**

**FORM IN-T  
QUARTERLY UPDATE REPORT \***

For the Quarter Ending September 30, 2002

**GRUPO MELO, S. A.**

**REGISTERED SECURITIES: COMMON STOCK**

**ADDRESS: VIA ESPAÑA 2313, RIO ABAJO**

**TELEPHONE 221-0033 FAX 224-2311**

**E-MAIL : [dirfinanzas@grupomelo.com](mailto:dirfinanzas@grupomelo.com)**

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Grupo Melo, S. A. is a corporation exclusively engaged in the holding of common stock of the companies that conform Grupo Melo. The Group is a pyramidal structure in which Grupo Melo, S. A. is the flagship holding company. Grupo Melo, S. A. and Subsidiaries (henceforth Grupo Melo) is a conglomerate made up of 44 corporations grouped into 7 divisions engaged in the production, processing, distribution and sales of goods and services, and as such, its results depend on the operations of these 7 divisions.

**PART I.**

**ANALYSIS OF FINANCIAL AND OPERATING RESULTS**

**A. LIQUIDITY**

As stated in our previous report, Grupo Melo launched an issue of Mortgage Bonds by Compañía de Finanzas y Servicios, S. A. (COFISESA) for US\$15.0 million whose proceeds were used to retire short term debt. This plan to adjust maturities, reduce financial costs, and improve cash flow resulted in a 12.44% reduction in current liabilities and a 8.68% increase in current assets. Simultaneous to this bond issue, other short and long term bank transactions were completed during the last nine months of operations of the Group, which permitted a reduction of US\$9.74 million in short term bank debts and an increase of US\$8.4 million in long term bank debt with a net bank debt reduction of US\$1.3 million through payments with the Group's resources of US\$1.3 million.

Equally, as well, this bond issue and the policies adopted, improved our current ratio as of September 30 to 1.33 compared to 1.07 as of December 31, 2001. This was

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\*This document has been prepared in the knowledge that it will be made available to investors and the public in general.

due to the fact that short term debt was adjusted to the Group's consolidated cash flow. Current Assets of Grupo Melo, with respect to 31DIC'01, grew principally through the increase in Inventories by US\$2.5 million or 10.09%. This growth matches the operating cycle of the different businesses of the Group and corresponds to the increase in sales that need to be supported by an increase in working capital.

## **B. CAPITAL RESOURCES**

Total Assets of Grupo Melo and Subsidiaries as of 30SEP'02 increased by 2.35% against YE'01 due to the previously mentioned increase in Current Assets represented by the increase in lots for sale in the Real Estate Division of the Group, by guarantee deposits, and other various items.

As of 30SEP'02, the short and long term debt structure decreased by US\$1.3 million, due fundamentally to bank short term debt payments with the Group's own funds and by the anticipated redemption of the Altos de Vistamares, S. A. bond issue in July of this year. That notwithstanding, and in spite of a net bank debt reduction of 14.11%, Total Liabilities of Grupo Melo and Subsidiaries increased 3.49% against YE'01. This situation is due to the increase of 29.16% in accounts payable that also caused a net increase on assets against YE'01 and whose usance is notorious on the amounts of accounts receivable, inventories and on prepaid expenses.

At the close of QTRIII'02, the Group's Equity increased by 0.13%, compared to same period last year, as a result of the capitalization of retained earnings for the period. The D/W ratio is 2.23 against 2.15 at YE'01.

## **C. OPERATING RESULTS**

Sales of poultry this Quarter reported an interesting increase in volume and at acceptable price levels, due to which Total Income for Grupo Melo and Subsidiaries reached US\$88.420 million at 30SEP'02 or a 6.74% increase over same period year 2001. Notwithstanding the growth in sales and production, the follow-up to market penetration in local and international markets generated an increase in purchases of raw materials, a main component of sales, which resulted in a net decrease of 0.18% in gross margins.

As previously estimated, growth in operations of the Group generated an increase in general expenses of 6.38% this Quarter when compared to the same Quarter '01. In spite of the achieved net reduction in bank debt against 2001, financial expenses increased 6.48% against same Quarter '01 because the latter did not reflect finance costs related to construction and equipment for the "Manuel E. Melo" processing plant that started operations in QTRIV'01

Due to the increase in sales of the Group, resulting from the greater volume of business, Return on Equity for this Quarter is 0.85%, which is better than the previous Quarter due to the capitalization of Net Profits for the period. Net Profit ended at 0.37% at the close of September '02, contributing to an ROI of 0.26% also at the close of September '02.

#### **D. ANALYSIS OF EXPECTATIONS**

Efforts to increase exports of value added products from the "Manuel E. Melo" plant continue. At present we are exporting to Colombia, Honduras, Guatemala and Nicaragua. Potential distributors in Costa Rica and Trinidad Tobago have already been included in the customer lists of the Poultry Division, which will enable us to develop these markets and increase exports to them.

We successfully completed the placing of the US\$15.0 million bond issue by COFISESA which consists of a 10-year series with quarterly payments to principal. These funds have been used to retire short term obligations, allowing us to reduce the number of banking relationships and improve the financial structure of the Group.

Sales of the Restaurant Division continue to improve over previous years. This year we have opened two outlets and we expect to open two more, strategically located in the City and the outskirts, before year end. With the latter, we would have 31 fast food outlets in the Group. The Machinery Division has increased its market participation, allowing it to reaffirm its leadership in commercial fleet sales.

Grupo Melo is projecting an increase in sales or in total income for year end, reflecting the already observed improvement in price levels, a tendency that requires continuation of our policy of expense rationalization and credit analysis to the sector. We are already aware of this effect in the Poultry Division whose Value Added Plant is almost at the break even point. For the same reasons, we also expect a better D/W ratio in line with acquired loan covenant obligations.

The Divisions of the Commercial and Foodstuffs Groups of Grupo Melo continue their efforts to increase their local and international sales by developing new orders, market penetration strategies, increase in production, expense reduction, and price optimization.

## PART II.

### FINANCIAL SUMMARY

#### GRUPO MELO AND SUBSIDIARIES (IN THOUSANDS OF US\$ EXCEPT THOSE MARKED \*)

#### A. Presentation Applicable to Issuers of the Commercial and Industrial Sectors:

<b>STATEMENT OF FINANCIAL CONDITION</b>	<b>QTR III 30/09/02</b>	<b>QTR II 30/06/02</b>	<b>QTR I 31/03/02</b>	<b>QTR IV 31/12/01</b>
Sales or Total Income	88,420	56,599	27,249	111,675
Operating Margin	5.95%	5.03%	4.26%	6.15%
Gen'l & Admin. Expenses	40,820	26,857	13,018	51,010
Net Profit/(Loss)	326	(335)	(339)	925
Outstanding/Paid In Shares *	2,328,314	2,328,314	2,328,314	2,328,314
Profit/(Loss) per Share *	\$0.140	(\$0.144)	(\$0.146)	\$0.397
Depr. & Amortization	4,166	2,871	1,405	5,872
Non-Recurring Profit /(Loss)	0	0	0	0
<b>BALANCE SHEET</b>	<b>QTR III 30/09/02</b>	<b>QTR II 30/06/02</b>	<b>QTR I 31/03/02</b>	<b>QTR IV 31/12/01</b>
Current Assets	51,714	48,408	48,408	47,583
Total Assets	124,577	122,535	122,535	121,720
Current Liabilities	38,791	49,259	49,259	44,304
Long Term Debt	47,105	35,216	35,216	38,674
Preferred Stock	0	0	0	0
Paid-In Capital	20,892	20,892	20,892	20,892
Retained Earnings	17,790	17,123	17,123	17,834
Total Equity	38,542	37,875	37,875	38,586
<b>FINANCIAL RATIOS</b>				
Dividend /Share	\$0.16	\$0.16	\$0.16	\$0.27
Total Debt/Equity	2.23	2.24	2.24	2.15
Working Capital	12,923	(851)	(851)	3,279
Current Ratio	1.33	0.98	0.98	1.07
Oper. Earnings/Fin. Expenses	1.07	0.90	0.78	1.12

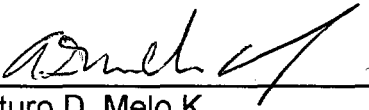
**PART III.  
FINANCIAL STATEMENTS**

The Financial Statements are annexed to this Report.

**PART IV.  
DISCLOSURE**

Grupo Melo, S. A. will disclose the information contained in the Quarterly Update Report through the Grupo Melo web site at [www.grupomelo.com.pa](http://www.grupomelo.com.pa) as of December 03, 2002.

Legal Representative

  
\_\_\_\_\_  
Arturo D. Melo K.  
Director and Chief Operations Officer

## **GENERAL INFORMATION**

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### **Dignitaries**

Arturo D. Melo S. (President)  
Arturo D. Melo K. (Vicepresident – Secretary)  
Eudoro Jaen (Vicepresident – Treasurer)  
Federico F. Melo K. (Vicepresident)

### **Company Secretary**

Arturo D. Melo K.

### **Registered Office**

Via España 2313, Rio Abajo

### **Lawyers**

Rivera, Bolivar y Castañeda  
Infante, Garrido y Garrido  
Vergara, Anguizola y Asociados

### **Banks and Financial Institutions**

Primer Banco del Istmo, S. A.  
The Bank of Nova Scotia  
Banco Continental de Panama, S. A.  
Banco Atlantico Panama  
Banco de Latinoamerica, S. A.  
Banco Aliado, S. A.  
Citibank, N.A.  
Banco General, S. A.  
Banco Internacional de Costa Rica  
BNP Paribas  
Lloyds TBS Bank PLC  
HSBC Bank  
Banco Internacional de Panama, S. A.  
BAC International Bank  
Banco Bilbao Vizcaya Argentaria (Panama), S. A.  
Credicorp Bank, S. A.  
Universal Trade and Finance  
Corporacion Interamericana de Inversiones

### **Trustee Bond Holders**

Banistmo Capital Markets Group Inc.  
B.G. Investment Co. Inc.

### **Auditors**

Ernst & Young

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## AUDITORS' REPORT

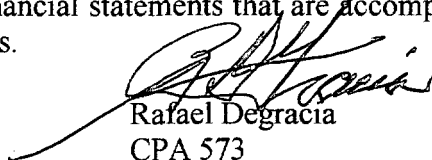
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The Board of Directors and Shareholders  
Grupo Melo, S. A.

We have reviewed the balance sheets consolidated and the consolidated states of capital of Grupo Melo, S.A., to the 30 of september of 2002 and 31 of December of 2001, the connected states consolidated of results and cash flow, for the nine finished months the 30 of September of 2002 and 2001 in accordance with International Accounting Standards. All information including the financial statements is representation of the management of Grupo Melo, S.A..

A revision mainly consists of investigations to the personnel of the company and application of analytical procedures to the financial information. Its reach is substantially smaller than the used one in an examination done in accordance with accepted International Standard Audit, whose objective is the expression of an opinion on the taken financial statements altogether. Therefore, we did not express such opinion.

Based on our revisions, we have not had knowledge of any relatively important modifications that they were due to do to the financial statements that are accompanied in accordance with the International Accounting Standards.

  
Rafael Degracia  
CPA 573

October 30, 2002  
Panama, Republic of Panama



## **CONSOLIDATED BALANCE SHEETS**

		<b>Septiember</b>	<b>December</b>
	<b>Notes</b>	<b>2002</b>	<b>2001</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	<b>B/. 2,558</b>	B/. 3,433
Notes and trade receivable, net	4, 5	<b>17,957</b>	15,984
Loans receivable, net	6, 7	<b>224</b>	342
Inventories	8	<b>27,748</b>	25,205
Prepaid income tax		<b>769</b>	791
Severance fund		<b>1,511</b>	1,351
Prepaid expenses		<b>947</b>	478
		<b>51,714</b>	47,584
<b>Non-Current Assets</b>			
Notes receivable, net of current portion		<b>4,278</b>	4,449
Deferred income tax	14	<b>700</b>	700
Parceled land for sale		<b>8,648</b>	8,012
Investment, at equity	9	<b>1,668</b>	1,668
Properties, equipment and improvements, net	10	<b>53,412</b>	55,243
Reforestation costs		<b>1,706</b>	1,706
Other assets		<b>2,451</b>	2,358
		<b>72,863</b>	74,136
<b>TOTAL ASSETS</b>			
		<b>B/. 124,577</b>	B/. 121,720

		September	December
	Notes	2002	2001
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Interest-bearing loans and borrowings	12, 13	B/. 17,391	B/.27,136
Notes and accounts payable - trade		17,181	13,303
Reserve for seniority premium		2,365	2,320
Accrued expenses and other liabilities	11	1,854	1,545
		<b>38,791</b>	<b>44,304</b>
<b>Non-Current Liabilities</b>			
Interest-bearing loans and borrowings	13	47,105	38,674
Clients deposits		49	87
Minority interest		90	69
		<b>47,244</b>	<b>38,830</b>
<b>Commitments and contingency</b>	<b>18</b>		
<b>Shareholders' Equity</b>			
Issued capital (common stock, no par value; authorized shares: 2,500,000; issued and outstanding shares: 2,328,314)		20,892	20,892
Retained earnings		17,790	17,834
Deemed dividend tax		(140)	(140)
<b>Total Shareholders' Equity</b>		<b>38,542</b>	<b>38,586</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
		<b>B/.124,577</b>	<b>B/.121,720</b>

The accounting policies and explanatory notes on pages 9 through 25 form an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF INCOME**

		Quarterly Ended September 30	
	Notes	2002	2001
<b>Revenue</b>			
Net sales		B/.87,966	B/.82,147
Interest income		369	503
Other income		85	186
Total revenue		88,420	82,836
<b>Cost and expenses</b>			
Cost of sales		42,343	39,523
General and administrative expenses	17	36,654	33,536
Depreciation and amortization	10	4,166	4,217
Interest and financial charges		4,911	4,612
Total cost and expenses		88,074	81,888
<b>Income (Loss) before Income Tax</b>	14	346	948
Income Tax		-	(114)
Income (Loss) before Minortary Interest		346	834
Minority interest		(20)	(1)
<b>Net Income (Loss)</b>		B/. 326	B/. 833
<b>Basic earnings per share</b>			
		B/. 0.14	B/. 0.36

The accounting policies and explanatory notes on pages 9 through 25 form an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF CAPITAL**

	Note	September 2002	December 2001	Shares	
				2002	2001
<b>Issued capital<sup>(1)</sup></b>					
<b>Common stock at no par value</b>					
Balance, beginning of year		<b>B/.20,892</b>	B/.20,126	<b>2,328,314</b>	2,328,314
Capitalized earnings		-	766		
Balance, end of year		<b>20,892</b>	20,892	<b>2,328,314</b>	2,328,314
<b>Retained earnings</b>					
Balance, beginning of year		<b>17,834</b>	18,293		
Dividends paid	15	<b>(370)</b>	(618)		
Capitalized earnings		-	(766)		
Net income		<b>326</b>	925		
Balance, end of year		<b>17,790</b>	17,834		
<b>Deemed dividend tax</b>					
Balance, beginning of year		<b>(140)</b>	(141)		
Decrease		-	1		
Balance, end of year		<b>(140)</b>	(140)		
<b>Total capital and shares</b>		<b>B/.38,542</b>	B/.38,586	<b>2,328,314</b>	2,328,314

<sup>(1)</sup> The holders of ordinary shares are entitled to receive dividends as and when declared by the Group. All ordinary shares carry one vote per share without restriction.

The accounting policies and explanatory notes on pages 9 through 25 form an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Notes	Quarterly Ended September 30	
		2002	2001
<b>Cash flows from operating activities</b>			
Income (Loss) before minority interest		B/. 346	B/. 948
Adjustments for:			
Depreciation and amortization	10	4,166	4,217
Allowance for doubtful accounts	5	365	337
Reserve for seniority premium		233	239
Interests paid		4,911	4,612
Interests earned		(369)	(503)
Operating results before changes in working capital		9,652	9,850
Notes and trade receivable		(2,338)	557
Loans receivable		118	-
Inventories		(2,543)	2,275
Prepaid expenses		(469)	(573)
Notes and accounts payable - trade		3,878	(4,701)
Accrued expenses and other liabilities		309	(1,438)
Seniority premium paid		(188)	(263)
Clients deposits		(38)	58
Cash proceeds from operations		8,381	5,765
Interests paid		(4,911)	(4,612)
Interests earned		369	503
Income tax paid		23	(48)
Net cash flows from operating activities		3,862	1,608
<b>Cash flows from investing activities</b>			
Severance fund		(160)	41
Time deposits		-	500
Investment		-	(10)
Purchase of properties, equipment and improvements, net of disposals		(2,335)	(8,014)
Parceled land for sale		(636)	(317)
Net cash flows used in investing activities		(3,131)	(7,800)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**continued**

	Note	Quarterly Ended September 30	
		2002	2001
<b>Cash flows from financing activities</b>			
Notes receivable, net of current portion		B/. 171	B/. (228)
Other assets		(93)	45
Loans payments and leasing obligations		(50,706)	(38,731)
Proceeds from loans and leasing obligations		34,392	41,253
Issuance of bonds		15,000	4,500
Redemption of bonds		-	(2,014)
Dividends paid	15	(370)	(620)
Net cash flows from financing activities		(1,606)	4,205
Net (decrease) increase in cash and cash equivalents		(875)	(1,987)
Cash and cash equivalents at beginning of year		3,433	4,980
<b>Cash and cash equivalents at end of year</b>		<b>B/. 2,558</b>	<b>B/. 2,993</b>

The accounting policies and explanatory notes on pages 9 through 25 form an integral part of the financial statements.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **1. CORPORATE INFORMATION**

Grupo Melo, S. A. is the holding company of a conglomerate which are grouped in divisions with various economic activities such as: wholesale and retail sale of dry goods; breeding, fattening and sale of poultry; sale of agriculture and industrial machinery, vehicles and related equipment; processing, sale of wood and construction material; fast food restaurant chain, processing of chicken and preparation of food, real estate and reforestation. Its sales are mainly to local consumers. Among its main suppliers are: Isuzu Motor Corporation, John Deere Intercontinental, Syngenta, S. A., Bremer Pharma, Pfizer, S. A., Monsanto, S. A., and Pioneer Seed Co.

The office of Grupo Melo, S. A. is located at Via España #2313, Rio Abajo.

At September 30, 2002 and December 31, 2001 the Group had 2,942 and 2,803 employees, respectively.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with Standards issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretations Committee of the IASC.

The consolidated financial statements have been prepared on a historical cost basis and are stated in balboas (B/.), monetary unit of the Republic of Panama, which is at par and freely exchangeable with the dollar (\$) of the United States of North America.

#### **Principles of consolidation**

The consolidated financial statements comprise the accounts of Grupo Melo, S. A. and its controlled subsidiaries, after the elimination of all material intercompany transactions.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Minority interest principally represents the interest in Ali Melo, S. A. and Industrial Maderera, S. A., not held by the Group.

## **NOTES continued**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

#### **Use of estimates**

The preparation of the consolidated financial statements in accordance with International Accounting Standards requires management to record several estimates and assumptions related with the presentation of assets, liabilities and contingent liabilities. The final balances might differ from these estimates. The estimates particularly susceptible to significant changes are those related with the allowance for uncollectible accounts and the allowance for slow moving inventory.

#### **Manufacturing tax incentives**

Empacadora Avicola, S. A., Sarasqueta y Cia., S. A., Maderas y Materiales de Construcción, S. A., Industria Nacional de Maderas, S. A., Empolladora Panama, S. A., and Embutidos y Conservas de Pollos, S. A. were granted by means of their registration in the Official Registrar of the National Industry, the industrial incentives for the advancement and development of the local industries and exports, forseeed in Law No.3 of March 20<sup>th</sup>, 1986. The Companies signed the Official Registrar of the National Industry in 1991 for a period of ten years, due in 2000. Empacadora Avicola, S. A., Sarasqueta y Cia., S. A., Empolladora Panama, S. A. and Embutidos y Conservas de Pollos, S. A. were granted an extension of 10 years due in 2010 and Maderas y Materiales de Construcción, S. A. due in 2009.

Among the benefits and incentives granted to the Companies, are the following:

- a) Three percent tax on imports of all machinery, equipment, spare parts and accessories, raw material, semi-finished products, containers, fuel and lubricants.
- b) Exemption of income tax, on reinvested profits for plant expansion or to produce new products.
- c) Loss carry forward to be applied from taxable income during the three years following the period in which they were incurred.

#### **Cash and cash equivalents**

Cash on hand and in banks, which are held to maturity, are carried at cost.



## **NOTES continued**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

#### **Notes and trade receivable**

Trade receivable, which generally has 30-90 day terms, is recognized and carried at original invoice amount less an allowance for any uncollectible amounts. By an evaluation of accounts receivable, management increases the allowance for doubtful accounts through a charge to operations. Accounts determined to be uncollectible are charged against the allowance.

#### **Allowance for doubtful loans**

By an evaluation of loans receivable, management increases the allowance for doubtful loans through a charge to operations. Accounts determined to be uncollectible are charged against the allowance.

#### **Inventories**

The inventories are carried at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Finished goods and work-in-progress	Average cost
Machinery and automobiles inventory	Specific costs according to suppliers invoices.
Parceled land for sale	Land purchased for development and sale are carried at the lower of cost and net realizable value.

#### **Allowance for slow moving inventory**

By an evaluation of the inventory turnover, management estimates the allowance for slow moving inventory through a charge to operations. Each year inventories determined to have slow turnover are charged against the allowance.

#### **Severance fund / seniority premium and accrued indemnity**

Labor laws establish that employers must have a dismissal fund to pay the worker upon cessation of the labor relationship, regardless of the cause, a seniority premium and indemnity in cases of unjustified dismissals. The Group contributes to the fund on the basis on 2.25% of total salaries paid.

## **NOTES continued**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

#### **Investment in associates**

Investment in associates over which the Group has significant influence (typically those that are 20-50% owned) is accounted for under the equity method of accounting and is carried in the balance sheet at the lower of the equity-accounted amount and the recoverable amount, and the pro-rata share of income (loss) of associates is included in income. The Group's investment in associates consist of a 50% ownership interest in Procesadora Moderna, S. A., 50% ownership interest in Endicott International Ltd., 50% ownership interest in Compañía Ulises, S. A., 50% ownership interest in Bulk Cargo, S. A. and a 16% ownership interest in Comercializadora Regional Centroamericana, Inc.

#### **Properties, equipment and improvements**

Properties, equipment and improvements are stated at cost less accumulated depreciation and amortization. Generally, depreciation and amortization are computed on a straight-line basis over the estimated useful life of the asset (30 - 40 years for building and improvements, 3 - 16 years for machinery and equipment). The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

#### **Forest investment**

Payments made by the Group for the execution of the forest development plan are recorded as reforestation costs, as well as handling and current and administrative expenses incurred in the operation and maintenance of reforestation.

#### **Accounts payable trade and accrued expenses**

Liabilities for trade and accrued expenses which are normally settled on 30-90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

#### **Loans and borrowings**

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received and including acquisition charges associated with the loans.

After initial recognition, all interest-bearing loans and borrowings, other than liabilities held for trading, are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Liabilities, which are held for trading, are subsequently measured at fair value.

## **NOTES continued**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

#### **Deferred income tax**

Deferred income tax arises because of time differences resulting from income and expenses recorded in financial accounting and those reported for the purposes of income tax calculation.

The determination of deferred income tax must be based on the certainty of the utilization of carry-forward tax losses before recognizing any asset by deferred income tax on the consolidated financial statements. The carrying amount of deferred tax assets or liabilities is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset or liability to be utilized. The Group records deferred income tax from carry-forward losses based on the amount considered to be recoverable in subsequent years and not on total accumulated losses, due to the uncertainty of using this asset in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or subsequently enacted at the balance sheet date.

#### **Leases**

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased properties, equipment and improvements. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

#### **Share capital**

Ordinary share capital is recognized at the fair value of the consideration received by the Company. As equity is repurchased, the amount of consideration paid is recognized as a charge to equity and reported in the balance sheet as treasury shares.

**NOTES continued**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued****Income recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

*Rendering of services*

Revenue is recognized only to the extent of the expenses recognized which are recoverable.

*Interest*

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

*Commission*

Commission income is recognized over a proportional base during loan existence.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents were as follows as of September 30:

	September 2002	December 2001
Cash on hand	B/. 95	B/. 385
Cash on banks:		
Checking accounts	2,463	3,048
	B/. 2,558	B/. 3,433

## **NOTES continued**

### **4. NOTES AND TRADE RECEIVABLE, NET**

Notes and trade receivable were comprised of the following as of September 30:

	<b>September 2002</b>	<b>December 2001</b>
Current portion of notes receivable	<b>B/. 4,060</b>	B/. 3,634
Trade receivable	<b>13,704</b>	11,653
Allowance for doubtful accounts	<b>(747)</b>	(567)
	<b>17,017</b>	14,720
Accounts receivable - other:		
Employees	<b>137</b>	129
Other	<b>803</b>	1,135
	<b>B/. 17,957</b>	B/. 15,984

### **5. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The following is an analysis of the allowance for doubtful accounts as of September 30:

	<b>September 2002</b>	<b>December 2001</b>
Balance, beginning of year	<b>B/. 567</b>	B/. 681
Additions	<b>365</b>	289
Write-offs	<b>(185)</b>	(403)
Balance, end of year	<b>B/. 747</b>	B/. 567

### **6. LOANS RECEIVABLE, NET**

A detail of loans receivable at September 30, is as follows:

	<b>September 2002</b>	<b>December 2001</b>
Automobile financing	<b>B/. 675</b>	B/. 982
Personal loans	<b>109</b>	229
Commercial loans	<b>158</b>	293
	<b>942</b>	1,504
Allowance for doubtful loans	<b>(548)</b>	(812)
	<b>394</b>	692
Deferred interest	<b>(170)</b>	(294)
Deferred commissions	<b>-</b>	(56)
	<b>B/. 224</b>	B/. 342

## **NOTES continued**

### **7. ALLOWANCE FOR DOUBTFUL LOANS**

The following is an analysis of the allowance for doubtful loans at September 30:

	<b>September 2002</b>	<b>December 2001</b>
Balance, beginning of year	<b>B/. 812</b>	B/. 1,890
Write offs	<b>(264)</b>	(1,078)
Balance, end of year	<b>B/. 548</b>	B/. 812

### **8. INVENTORIES**

At September 31 inventories are detailed as follows:

	<b>September 2002</b>	<b>December 2001</b>
Goods and materials	<b>B/. 13,683</b>	B/. 12,603
Machinery and equipment	<b>1,265</b>	1,246
Automobiles and spare parts	<b>2,934</b>	2,339
Poultry, eggs and food	<b>8,623</b>	6,804
Other (tires and batteries)	<b>569</b>	1,488
	<b>27,074</b>	24,480
Inventory in transit	<b>674</b>	725
	<b>B/. 27,748</b>	B/. 25,205

## **NOTES continued**

### **9. INVESTMENT, AT EQUITY**

At September 30, investments were as follows:

December	% of			September	
	Participation	Cost	Participation	2002	2001
Procesadora Moderna, S. A.	50%	B/.1,849	B/.(849)	B/. 1,000	B/.1,000
Endicott International Ltd.	50%	240		240	240
Compañía Ulises, S. A.	50%	135	(7)	128	128
Panama Grain Terminal, S. A.	25%	100	-	100	100
Bulk Cargo, S. A.	50%	37	34	71	71
Comercializadora Regional Centroamericana, S. A.	16%	50	(10)	40	40
		2,411	(832)	1,579	1,579
Otras inversiones		89		89	89
		<b>B/.2,500</b>	<b>B/.(832)</b>	<b>B/. 1,668</b>	<b>B/.1,668</b>

The Group has not been able to obtain the financial statements of Endicott International Ltd. as of September 30, 2002. Due to this fact, the investment is presented at cost. Since Endicott International Ltd. began operations in year 2001, the results have no relative significance on the Group's operations taken as a whole.

The investment in Panama Grain Terminal, S. A. is presented at cost, because the company had no operations at September 30, 2002.

## NOTES continued

### 10. PROPERTIES, EQUIPMENT AND IMPROVEMENTS, NET

An analysis of properties, equipment and improvements at September 30 and December 31, is the following:

	Properties		Machinery and Equipment		Leased Equipment		Construction In Progress		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Balance at beginning of year, net of accumulated depreciation and amortization	B/. 31,505	B/. 26,408	B/. 21,969	B/. 17,136	B/. 548	B/. 1,472	B/. 1,221	B/. 6,187	B/. 55,243	B/. 51,203
Additions	435	-	1,019	1915	420	162	548	8,062	2,422	10,139
Reclassifications	78	6,767	218	6,261	-	-	(296)	(13,028)	-	-
Disposals	(44)	(268)	(258)	(126)	-	(12)	-	-	(302)	(406)
Disposals depreciation	71	76	144	97	-	6	-	-	215	179
Depreciation	(1,111)	(1478)	(2,611)	(3,314)	(444)	(1,080)	-	-	(4,166)	(5,872)
Balance at end of year, net of accumulated depreciation and amortization	B/. 30,934	B/. 31,505	B/. 20,481	B/. 21,969	B/. 524	B/. 548	B/. 1,473	B/. 1,221	B/. 53,412	B/. 55,243
Properties, equipment and improvements, at cost										
Accumulated depreciation and amortization	B/. 43,008	B/. 42,539	B/. 51,862	B/. 50,851	B/. 5,859	B/. 5,444	B/. 1,473	B/. 1,221	B/. 102,202	B/. 100,055
Net carrying amount	(12,074)	(11,034)	(31,381)	(28,882)	(5,335)	(4,896)	-	-	(48,790)	(44,812)
	B/. 30,934	B/. 31,505	B/. 20,481	B/. 21,969	B/. 524	B/. 548	B/. 1,473	B/. 1,221	B/. 53,412	B/. 55,243

Several properties guarantee credit agreements of the Group's companies. (Notes 12 and 13)



## **NOTES continued**

### **11. ACCRUED EXPENSES AND OTHER LIABILITIES**

The following is a detail of accrued expenses and other liabilities at September 30:

	September 2002	December 2001
Reserve for vacations	B/. 376	B/. 453
Income tax and social security	326	453
Construction deposits	23	146
XIII month	274	105
Managers' participation	19	93
Interests payable	220	156
Payroll deductions and other	616	139
	<b>B/. 1,854</b>	<b>B/. 1,545</b>

### **12. CREDIT AGREEMENTS**

The Group has agreements for short-term credit lines with nine banks up to B/.23,700 as per agreed upon contractual clauses. Those agreements do not have maturity dates and may be reviewed and renewed on a yearly basis. As of September 30, 2002, the unused portion of the credit lines was B/. 9,980.

The credit agreements entail the following conditions:

- Mortgage and anticresis over properties 61996, 65686, 65159, 57169, 20465, 34053, 28356, 49380, 39570, 39728, 33382, 33151, 52515 and 41088. Additionally, properties 40371, 4038, 40391, and others where the plant Manuel E. Melo is located.
- Dividends and/or loans to shareholders are allowed up to 40% of yearly net earnings as long as the debt to capital ratio is not greater than two and one half (2 ½) to one (1).
- The debt to capital ratio should not exceed two and one half (2 ½) to one (1).

**NOTES continued****13. INTEREST - BEARING LOANS AND BORROWINGS**

At September 30, short and long-term interest-bearing loans and borrowings were as follows:

	Interest	Maturities	September 2002	December 2001
<b>Short - term</b>				
Overdraft and bank loans	7.5-11%	2003	<b>B/. 13,720</b>	B/.18,917
Mortgages	7-12%	2003	<b>2,377</b>	6,216
Capital lease agreements	10.5-11%	2003	<b>284</b>	543
Bonds	8.5-10%	2003	<b>1,010</b>	1,460
			<b>B/.17,391</b>	B/.27,136
<b>Long - term</b>				
Mortgages	7-12%	2009	<b>B/. 7,663</b>	B/. 10,329
Capital lease agreements	10.5-11%	2003	<b>206</b>	98
Bonds	8.5-10%	2012	<b>39,236</b>	28,247
			<b>B/. 47,105</b>	B/.38,674

**Mortgages**

Mortgages have the following guarantees:

- Mortgage and anticresis over properties 1897, 11259, 11415, 11962, 27279, 32498, 15005, 53454, 83928, 34986, 37133, 11457, 8546, 6955, 5701, 3314, 3381, 3382, 105310, 39226 45897, 111084, 123987 and 143675.
- Requirements on maintenance of the mortgaged properties, insurance policies endorsed to banks and cross guarantees of Grupo Melo, S. A. and subsidiaries.

## **NOTES continued**

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### **13. INTEREST - BEARING LOANS AND BORROWINGS continued**

#### **Bonds**

Current issuances are supported by the general credit of issuers, a trust fund established by negotiable documents and joint guaranty of Grupo Melo, S. A.

#### **Interest paid**

Interest payments of loans, leasing contracts and bonds were B/. 4,911 and B/.4,612 in 2002 and 2001, respectively.

**NOTES continued**

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**14. TAX****Deferred tax assets**

Deferred taxes at September 31 related to the following:

	Computation Basis	September 2002	December 2001
Seniority premium	B/. 1,100	<b>B/. 330</b>	B/. 330
Carryforward losses	1,232	<b>370</b>	370
	B/. 2,332	<b>B/. 700</b>	B/. 700

**Deferred income tax**

The Group recognizes income tax according to International Accounting Standard 12 (IAS 12) "Income Taxes".

The Group computed deferred tax asset for the amount of B/.700 at September 30, 2002. Theses balances are mainly the result of reserve for seniority premium prior to 1993 and current period's loss of Maderas y Materiales de Construcción, S. A. which will be available to apply against future income taxes. This provision is estimated on the basis mentioned above of B/.2,332 at September 30, 2002. According to tax regulations, in the case of seniority premium, future use of the provision must be applied at the time the benefit is paid or the contribution is made to the severance fund.

According to IAS 12, the future use of carryforward losses must be certain before recognizing any deferred tax asset on the consolidated financial statements. The carrying amount of deferred tax assets or liabilities is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset or liability to be utilized. The Group recorded deferred income tax from carryforward losses based on the amount considered to be recoverable in subsequent years and not on total accumulated losses, due to the uncertainty of using this asset in the future.

According to current tax regulations, income tax returns of entities established in the Republic of Panama are subject to review by tax authorities for the last three (3) years, including the year ended December 31, 2001.

## **NOTES continued**

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### **15. DIVIDENDS PAID**

During year 2002, dividends of B/.0.16 per ordinary share (totaling B/.370) were declared and paid.

During year 2001, dividends of B/.0.27 per ordinary share (totaling B/.620) were declared and paid.

**NOTES continued****17. GENERAL AND ADMINISTRATIVE EXPENSES**

The following is a detail of general and administrative expenses for the Quarterly ended September 30:

	September 2002	September 2001
Salaries, commissions and prizes	B/. 11,226	B/. 10,468
Payroll taxes	4,256	4,081
Employees participation in earnings	41	23
Travel, allowance and transportation	659	547
Legal and professional fees	1,107	1,222
Insurance	367	343
Rent	1,261	1,188
Electricity, telephone and water	2,723	2,483
Repair and maintenance	1,994	1,426
Cleaning	715	784
Inventory	55	101
Packaging, bags and paper	1,671	1,654
Office expenses	514	441
Stamps and sealed paper	166	208
Taxes	600	503
Bad debts	384	337
Delivery, freight and transport	1,569	1,528
Fumigation and medical expenses	792	633
Advertising	856	857
Bank charges	394	243
Gas and lubricants	1,378	1,591
Vehicle maintenance and spare parts	743	740
Supply and materials	533	425
Breeds	283	267
Sales Tax	363	255
Selling expenses	1,026	794
Employee benefits	666	590
Equipment rent	86	135
Miscellaneous	1,234	975
Expenses transferable to cost	(1,008)	(1,306)
	<b>B/. 36,654</b>	<b>B/. 33,536</b>

**NOTES continued****18. COMMITMENTS AND CONTINGENCY**

Commitments and contingency are detailed as follows:

**Capital lease obligations**

Future minimum lease payments under finance leases include the present value the net minimum lease payments and are as follows:

	September 2002	December 2001
Within one year	B/. 284	B/. 543
After one year but not more than five years	206	98
	<b>B/.490</b>	<b>B/. 641</b>

**Technology License and Technical Assistance Agreement**

Grupo Melo, S. A. signed a Technology License and Technical Assistance Agreement with Tyson Foods, Inc. with the following contract obligations:

1. Effective for a ten-year period starting on October 1, 1998 can be renewed automatically, unless one of the parties notifies the intention to negotiate thirty days prior to the end of the initial term or any subsequent renewal term.
2. Payment of a percentage of net sales of licensed products with an anual minimum payment of B/.200,000.

**Contingency**

Pavensa Overseas, S. A. filed a civil complaint against Grupo Melo, S. A., Construcciones Campestres, S. A., Cultivos Tecnicos de Panama, S. A., Edificaciones y Materiales, S. A. and Altos del Maria, S. A. in a plenary action of large claim before the 13<sup>th</sup> Civil Court of the First Judicial District, for supposed damages including detriment, loss of profits, moral, social and commercial damages, etc. The civil complaint is based on several irregularities and deficiencies noted and evidenced due to a pretended termination or fulfillment of a construction agreement to build a house. The amount of the claim is for Five Hundred Thousand Balboas (B/.500,000) plus interest, costs and expenses incurred during the proceedings. The current state of the case is awaiting verdict from the judgement of the first instance. The Group considers that, either in a court decision or by means of an out of court settlement, this case will represent for the defendant a payment in lieu of the repairs and expenses incurred by the plaintiff. In spite of the aforementioned, the total amount of the claim is temerarious and will not be technically possible to evidence as to the full amount pretended by the plaintiff.

Antonio Paredes Villegas filed a lawsuit against Compañía Panameña de Maquinaria, S. A. (COPAMA), claiming supposed injury and damages. The case is on the 16<sup>th</sup> Civil Court of the First Judicial District. The amount of the claim is for B/.1,675,000. It is considered that the outcome will be against the plaintiff. The case is awaiting decision.

At the date of the balance sheet, the Group had not made any provision related to these claims.

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